
Restructuring the IRS Workforce: The Impact of Employee Buyouts

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Organizational Context

- IRS Restructuring and Reform Act of 1998
- Far-reaching change
 - New divisions organized to better serve taxpayers
 - More flexibility in hiring and pay of managers
- Union involvement
- Avoidance of layoffs (RIFs) desired
- IRS lauded as a model for agency restructuring
 - Modernizing Human Resources Management in the Federal Government: The IRS Model, April 2003

How the IRS Implemented Variable Separation Incentive Pay (VSIP)

- Payment maximum is \$25,000 lump sum
- No explicit threat of layoff in most cases—reassignment emphasized instead
- Target workers whose positions don't fit into restructured organization—"transition employees"
- Two types of VSIP offerings:
 - Direct buyouts—transition employees
 - Indirect buyouts—other workers, whose acceptance would create a vacancy for a transition employee

Research Questions

- How much has the buyout succeeded in inducing separations of employees who would otherwise have stayed?
- What additional data would be needed to refine our estimates?

Methodological Challenges

- Identifying individuals in comparison groups
 - Data limitations—list of eligible individuals provided to us was not complete
 - Program structure—individuals were not targeted for indirect buyouts
- “Targeting effect”—VSIP targeted

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Eligible for VSIP	Retention Since Start of Buyouts
Yes	84.8%
No	81.2%

Identifying Eligibles and Non-Eligibles

- Obtained list of transition employees from IRS
 - Included 1,721 eligibles between March, 2001 and January, 2003 who had not taken the offer
- Extrapolated to larger IRS workforce
 - Based on policies governing eligibility for direct and indirect buyouts
 - “Eligible” if had same combination of occupation, pay grade, commuting area as someone on transition list
- Risk of “false positives” and “false negatives”

Characteristics of Eligibles

- Higher-tenured employees
 - Eligibles averaged 16 YOS
 - Non-eligibles averaged 14 YOS
- Senior GS-level employees
 - GS-10 and higher more likely to be targeted
 - GS-9 and lower, Wage Grade workers, and SES less likely to be targeted
- Management and Program Analysts
 - Legal occupations less likely to be targeted

Controlling for the Targeting Effect: “Difference in Differences”

Method

	Pre-Buyout Period No Offers	Buyout Period VSIP Offers
In Eligible Group	R1	R2
Not In Eligible Group	R3	R4

R_i = 30-month retention rate of group i

Program Effect Net of Targeting = $(R2 - R1) - (R4 - R3)$

Data Organization

Pre-Buyout Period No VSIP offers	Buyout Period VSIP offers throughout
30-Month retention	30-Month retention
“Eligible” employees VS. “Non-eligible” employees	Eligible employees VS. Non-eligible employees

June 1998

December 2000

June 2003

Start of data period **First VSIP offers** **End of data period**

Retention of Eligibles Would Have Been 3.8 Points Higher Without VSIP

	Pre-Buyout Period No Offers	Buyout Period VSIP Offers
In Eligible Group	88.6	86.1
Not In Eligible Group	85.9	87.2

R_i = 30-month retention rate of group i

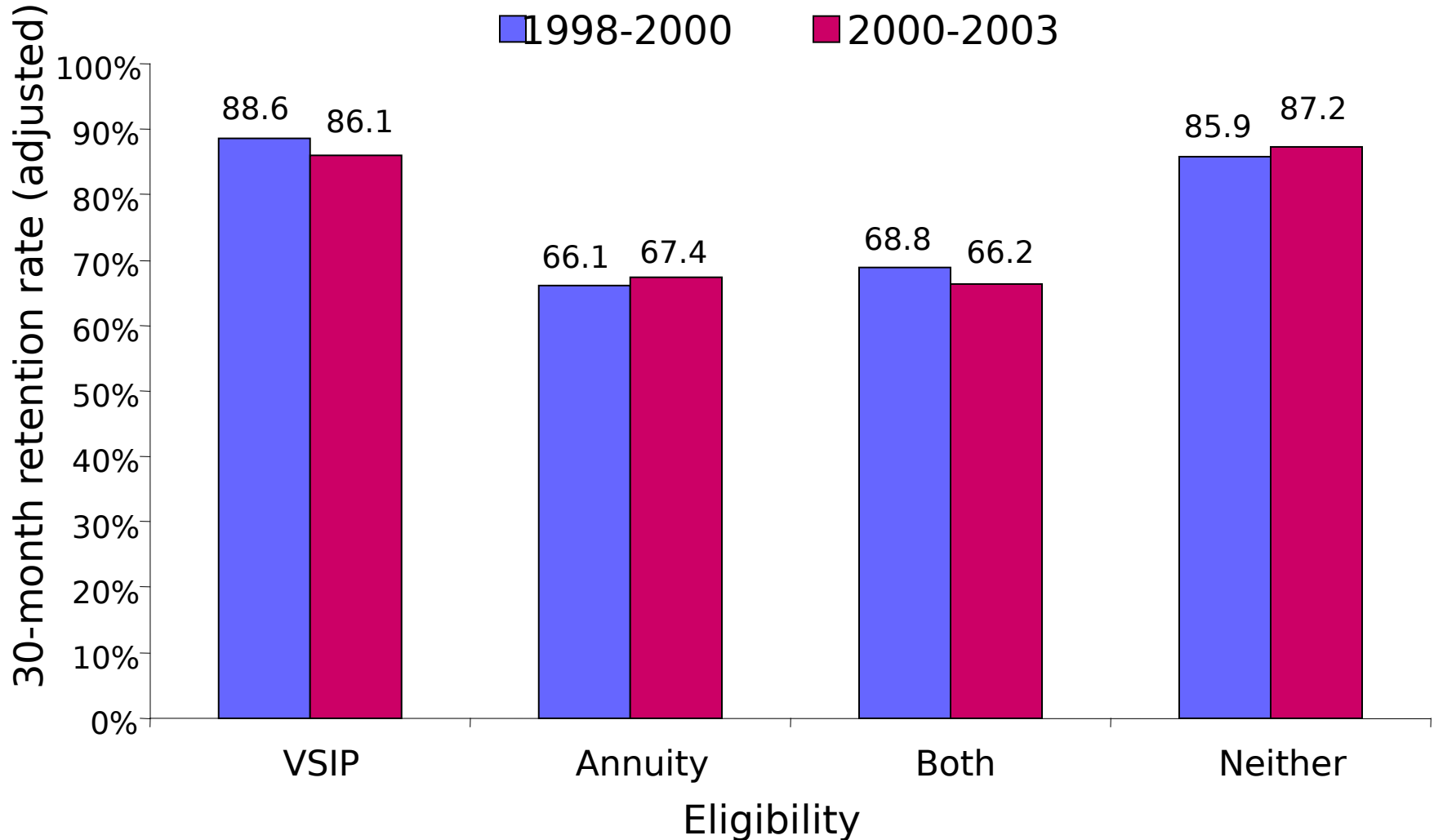
Program Effect Net of Targeting = $(86.1 - 88.6) - (87.2 - 85.9) = -3.8$ ppt.

Based on logit estimates controlling for gender, age, tenure, retirement eligibility and

Most VSIP-Takers Would Have Left Anyway

- Estimated losses of eligibles with buyout program: 3,700
- Estimated losses of eligibles without the program: 2,700
- Estimated losses due to program: 1,000
- Estimated number of takers who would have left IRS without the buyout: 2,700

Effects of Buyout Relative to Retirement Annuity



Summary

- The VSIP offering is associated with a discernable drop in retention
 - Reduced retention by 3.8%, or about 1,000 jobs
- However, 2,700 people took the bonus who would have left anyway
 - Such “rents” are to be expected in bonus programs but may need to consider how to minimize them
- VSIP impact is small compared to eligibility for immediate retirement annuities
- Additional information from IRS would allow for a better identification of the eligibles

Analysis of Navy Civilians

- Implications of IRS work
 - Complete listing of eligibles—both takers and those still on the rolls—is crucial for analyzing impact
 - Need to disentangle “targeting effect” from program effect to gauge impact
- Issues that will affect impact
 - Whether there is a threat of layoff
 - How narrowly VSIP is targeted—more the targeted, the greater the pure program effect